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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 001073

SIPDIS

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TAGS: [ECON](#) [ETRD](#) [PGOV](#) [PREL](#) [BM](#)

SUBJECT: BURMA SQUEEZES INFORMAL TRADE TO PRODUCE REVENUE

Classified By: Econoff TL Manlowe for Reasons 1.4 (b,d)

1. (C) Summary: GOB officials refuse to commit their new trade regulations to paper, and business reps are too mistrustful to place orders based on unwritten rules. Recent announcements of new regulations designed to bring more trade into the formal sector and increase revenues appear unlikely to achieve the desired results. Instead, they have only confused and delayed trade, providing business little incentive to shift to the formal sector. End summary.

New Regulations

2. (C) Rangoon and Mandalay businessmen have described for us problems with the implementation of new GOB trade regulations. Ministers of Finance and Revenue, Commerce, Transportation, and Livestock and Fisheries announced new trade regulations at an August 5 meeting with business representatives and government officials. When asked if the regulations, with guidelines for implementation, would be printed and released officially, the Finance Minister said they would not, because everyone who needed to know them was in the room. The new regulations (and some feedback from business representatives on implementation) include:

-- A waiver of the long-standing requirement for imported shipments to consist of at least 80% essential items (machinery, industrial raw materials, agriculture inputs, medicines, etc.), and no more than 20% luxury goods. Feedback: Business reps told us that they didn't trust the verbal GOB announcement, which could be changed at any time, and most would not try to get a license for luxury goods of more than 20%. Some that did try, they said, had been inexplicably refused a license. Also, importer interest in luxury items is low. Because of weak consumer purchasing power, these items do not sell as well as essential items, such as raw materials and industrial inputs.

-- The Cabinet-level "Trade Council", chaired by Vice Sr. Gen. Maung Aye, now must approve all import and export licenses (previously necessary only for sensitive shipments). A new board of business representatives has been set up to review the prices of goods listed on the application to reduce government losses from under-invoicing. Feedback: Sending all imports and exports to the highest government level for review and approval has created added delays. Businessmen in Mandalay reported that it took up to three weeks to get an answer; some refusals had no reason given. This creates problems both with keeping a promised delivery date to the buyer and with costs. The kyat has depreciated approximately 10% since August 15, so exporters lose money by shipping goods priced at the old exchange rate, and importers must pay more than they had planned for hard currency.

-- Allowing companies to transfer to another company the import credit they earned from exporting. Previously, only exporters who earned hard currency could use those export earnings to import. Feedback: Illegal transfers between companies in the past resulted in some significant cases of fraud, so this should bring transactions above board. This was generally welcomed by business contacts.

-- Hard currency from sources other than exports, such as remittances from seamen, and earnings from offshore workers and garment workers, can now be used to import goods after paying 10% tax. Feedback: Since most of this money is repatriated informally, there is little incentive to go through official channels and incur a 10% loss by paying the tax. Those that have followed the official policy have run into difficulty because the relevant GOB officials have not been issued guidelines, so no one knows what procedures to follow to collect the tax and give credit for it.

-- A new requirement to identify the exact goods to be exported before gaining a license to export. Feedback: Exporters told us they now have to purchase the goods and submit a photograph with the application. If the license is denied, they are saddled with goods they are not allowed to sell. Sources of trade finance hesitate to give credit in such an uncertain environment. This requirement also creates a warehousing problem for bulky goods such as beans and pulses.

Tighter Borders, Broader Problems

13. (C) Though not announced at the August 5 meetings, border controls were tightened at about the same time, according to importers and exporters. GOB military officials are now not letting many informal shipments through at the border. They must see official documentation, including proof of payment of the 10% tax. Businessmen say that, in some cases, the 10% tax amounts to less than the "fees" they usually would have to pay to get an informal shipment through the border. With informal trade, however, they could make three shipments in the time it takes to get official approval for one, so ultimately they lose more money. (Note: This applies to trade in consumer goods and agricultural products. The impact on larger gray market exports, such as truckloads of timber, is not yet known. End note.)

14. (C) Some Burmese traders are now also prevented from bringing their goods right to the border or into China, as they had before. Now, we were told, Chinese buyers must come to a collection point inside Burma. This allows stricter oversight by GOB authorities. When attempting to conform with the new controls, some businessmen have found that Chinese banks don't want to open Letters of Credit (L/C's) for Burmese companies. The Myanmar Economic Bank, representing the Myanmar Foreign Trade Bank at the border, prefers only Bank of China L/C business for trade transactions. Authorities have warned traders against informal financing and currency exchange.

Comment: Sign Them Up for Trade Policy 101

15. (C) The GOB may be seeking increased revenues to pay for higher priced imported fuel, which it continues to subsidize. Thus, the GOB tries to increase revenue and bring more hard currency into the formal sector. Strict enforcement of trade regulations at the border could help, but only if the regulations are clear, predictable, fair, and efficiently applied. Refusal to issue regulations in writing, government servants unsure how to implement, long approval times, and unexplained license refusals show a lack of understanding about how to manage trade flows to fill government coffers. Unnecessary and unpredictable government interference in trade merely acts as a disincentive. End comment.
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